Comments by: Kansas State Representative Tom Sloan and Mary Galligan
RE: NBP Public Notice # 28 COMMENT SOUGHT ON ADDRESSING CHALLENGES TO BROADBAND DEPLOYMENT FINANCING
Date: January 8, 2010
GN Docket Nos. 09-47, 09-51, 09-137

Representative Tom Sloan represents district 45 in the Kansas State House of Representatives. The district includes portions of the city of Lawrence, Kansas and the primarily rural northwest corner of Douglas County.

Mary Galligan is a private citizen who worked for the Kansas Legislature for 27 years prior to her retirement in December 2009.

1. What existing federal government institutions, program mechanisms, and sources of funding could be employed to create greater incentives for privately financed rural broadband deployment?

The existing mechanism best suited to be a source of funding for incentives is the Universal Service Fund (USF). That source of funding could provide ongoing support for backhaul expenses. In fact, in Kansas both the federal USF and the Kansas Universal Service Fund have enabled the smallest telecommunication companies to implement and maintain broadband services in some of the most sparsely populated areas of the state. The existing challenge in Kansas is that some of the larger telecommunication companies that do not receive USF support have not expanded broadband availability, presumably because they do not have access to the subsidy that can make the difference between profit and loss in rural portions of their service areas. Specific designation of broadband services as an appropriate use of USF and opening access to that support to all eligible broadband providers would develop a workable mechanism without the need to develop a new revenue source or program.

However, we would discourage any use of USF support to artificially create competition in remote and sparsely populated areas. It is counterintuitive to provide a subsidy to multiple companies who provide broadband services in areas where the market is too small to enable one company to provide services without a subsidy.
Any such use of USF funds, however, should come with a sunset provision on the support for customer recruitment/aggregation to make sure the providers are diligent cultivating the market and making services available to all possible customers. Companies that receive financial support must be held accountable for actually ?signing? customers for broadband service, not simply installing infrastructure. Eligibility for broadband USF support must include requirements that prior to gaining

access to the subsidy, companies? marketing efforts be articulated and evaluated along with the technology the companies would use. USF support recipients must also submit to quality of service oversight. Such oversight would most appropriately be conducted at the state level to ensure responsiveness to service issues.

In addition, fixed technology providers receiving support should be required to offer broadband in the service area at speeds at least equal to the national average, and retail rates that do not exceed the national average (in many rural areas of the country, cost of service is as great a barrier to broadband access as is lack of infrastructure).

Providing incentives for companies to provide multiple services (sometimes marketed as ?double play? or ?triple play?) in underserved areas may increase financial viability of companies serving those areas. This is based on the marketing premise that if a customer receives voice, data, and entertainment, they remain more loyal than if receiving only one service. Loyalty in this instance translates to a more reliable cash flow for cost recovery. We recognize that fixed base wireless broadband, mobile broadband, and an entertainment package, might be the kind of ?triple play? that would facilitate the broadband ubiquity goal without ?creating? competition in the landline marketplace.

Notwithstanding our reluctance to subsidize competition in broadband and related services, there may be instances where subsidizing competition in one telecommunication service may be necessary to enable provision of broadband in a particular area. For instance, in areas where the predominant voice service provider does not provide broadband service, a support of a competitor whose business plan includes packaged voice and broadband service may be justified. Our previous comments regarding retail cost and quality of service would apply here, also.

a. What current federal programs administered by existing institutions, including Rural Utilities Service and National Telecommunications and Information Administration, provide instructive precedents for innovative financing support vehicles, such as loan guarantees?

The combination of RUS loans and USF support for high cost areas that need telecommunication services may be the most instructive precedent. Loans are essential for service initiation, but an ongoing subsidy for cost recovery makes the broadband provider viable in the eyes of a lender and is therefore essential to ongoing service.

A concept similar to the Life Line and Link-Up subsidies for voice service should be available for broadband service to ensure access to broadband by low income households.

2c. Are there new financing vehicles (e.g., loan guarantees) that have not been employed in the broadband context that should be considered?

Financing installation of infrastructure is only part of the picture. Subsidy of low income end-users access to broadband services would go hand-in-hand with deployment of infrastructure. Publically supported computer literacy projects in sparsely population areas also would stimulate demand for services.